September 08, 2023

APAC Financial Services Private Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank lines	900	1,100	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount
Total	**900**	**1,100**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in APAC Financial Services Private Limited's (APAC FSPL[1]) improving scale and profitability while maintaining good control on the asset quality and augmenting its borrowing relationships. APAC achieved a healthy improvement in its scale of operations in FY2023 and Q1 FY2024 with its assets under management (AUM) increasing to Rs. 1,156 crore as of June 30, 2023 from Rs. 1,051 crore as on March 31, 2023 and Rs. 581 crore as on March 31, 2022. The growth trajectory is expected to continue in FY2024 with estimated AUM growth of 50% year-on-year (YoY).

The rating also favourably factors in the adequate capitalisation profile with a net worth[2] of Rs. 501.7 crore and a gearing of 1.5 times as on June 30, 2023. While the leverage has gone up in the recent past due to the increase in borrowings to support the growing scale of operations, ICRA notes that the planned equity raise in FY2024 would augment the capital profile and support the planned portfolio growth for the next 2-3 years. The rating also factors in the good control over the asset quality demonstrated thus far (gross non-performing advances (GNPAs) and net NPA (NNPAs) of 1.2% and 0.9%, respectively, as on June 30, 2023), notwithstanding the low portfolio seasoning. The management's focus on building a secured {with a sizeable proportion of the portfolio backed by self-occupied residential properties (SORP)}, low ticket and granular loan book, coupled with the promoter and senior management's experience in the lending space, provides comfort.

The above positives are, however, offset by the moderate scale of operations despite the growth trajectory. Moreover, the operations are geographically concentrated with the top 3 states accounting for over 80% of the AUM as of March 31, 2023. The profitability metrics remain modest, although they have shown an improving trend. The return on managed assets (RoMA) and return on net worth (RoE) stood at 2.6% and 5.1%, respectively, in FY2023 compared to 2.0% and 2.6%, respectively, in FY2022. The RoMA and RoE improved further to 4.0% and 9.8%, respectively, in Q1 FY2024.

ICRA also notes that APAC's borrowings are largely from banks and select large non-banking financial companies (NBFCs). Nonetheless, there has been an improvement in the borrowing relationships over the last two years. Going forward, while the borrowing level is expected to increase with the scaling up of operations, the management plans to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the medium term. In this regard, the company's ability to continue to scale up its granular and secured lending operations profitably, maintain a well-diversified resource profile on competitive terms, and keep good control over the asset quality on a sustained basis would remain critical from a credit perspective.

[1] APAC FSPL and its wholly owned subsidiary – APAC Housing Finance Private Limited (APAC HFPL) are together referred to as APAC or the APAC Group (or the company).

[2] Unaudited figures

Key rating drivers and their description

Credit strengths

Adequate capitalisation – APAC's capital profile remains adequate with a net worth of Rs. 501.7 crore and a gearing of 1.5 times as on June 30, 2023. The capital-to-risk weighted assets ratio (CRAR) stood at 43.6% as on March 31, 2023, comfortably above the regulatory requirement of 15%. While the leverage has gone up in the recent past due to the increase in borrowings to support the growing scale of operations, the management plans to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the medium term. Moreover, while the gearing increased to 1.5 times as of June 30, 2023 from 0.4 times as of March 31, 2022, ICRA notes that the planned equity raise in FY2024 would augment the capital profile and support the planned portfolio growth for the next 2-3 years.

Good control over asset quality – APAC's headline asset quality metrics have hitherto remained under control with the GNPA and NNPA at 1.2% and 0.9%, respectively, as on June 30, 2023 (GNPA of 2.1% on a one-year lagged basis). While the company wrote off loans aggregating Rs. 20.1 crore in FY2023, these primarily belonged to the legacy run-off portfolio and the credit cost associated with the core portfolio has not witnessed an adverse trend thus far (core book GNPA and NNPA stood at 0.8% and 0.5%, respectively, as of June 30, 2023). The company had a modest restructured loan book aggregating 0.5% of the portfolio as on June 30, 2023 (4.7% as on March 31, 2022). A significant portion of the NPAs belonged to the run-off portfolio. Also, the 30+ days past due (dpd) improved to 1.8% as of March 31, 2023 from 5.0% as of March 31, 2022 and 4.3% as of March 31, 2021. The higher delinquencies, as of March 2022, pertained to the non-core book, especially one large account, which subsequently slipped into NPA category and was written off. The delinquencies in the core book remain low (core book accounts for over 99% of the AUM as of June 2023).

Secured and granular loan book – APAC is a retail micro, small and medium enterprise (MSME)-focused NBFC with the stated objective of building a secured, low ticket and granular portfolio. A significant share of its loan book is secured by property (~99% as on June 30, 2023 compared to ~93% as on March 31, 2022), with SORP accounting for ~97% of the same. The average ticket size (ATS) stood at Rs. 5.2 lakh as of June 30, 2023 and March 31, 2023 (compared to Rs. 14 lakh in March 2020) with a loan-to-value (LTV) of ~40%. The average yield is ~20-21% for micro loans and ~14-16% for small loans (small loans accounted for ~8% of the AUM as of March 2023). The door-to-door loan tenor is 6-10 years, although the behavioural tenor for the portfolio has been ~6 years. In terms of collections, ~99% is digital with ~65% of incremental collections being made through electronic National Automated Clearing House (eNACH) while the remaining is through manual NACH.

Credit challenges

Moderate scale; geographically concentrated operations and low portfolio seasoning – APAC has a modest lending track record of about five years with a sizeable ramp-up in its operations in the last 2-3 years. The seasoning of the core portfolio remains limited as the significant ramp-up in the scale of operations was attributable to the post Covid-19 pandemic period, starting Q2 FY2022. Also, the target customer segment primarily comprises micro and small business owners and self-employed individuals with a modest credit profile and limited credit history. Going forward, as the vintage improves, APAC's ability to maintain good control over the asset quality, considering the expected scale-up in operations, will remain a monitorable.

While APAC expanded its branch network significantly during FY2021-FY2023 to 122 as on March 31, 2023 from 83 as of March 31, 2022 and 41 as of March 31, 2021, its operations remain geographically concentrated in six states/Union Territories (UTs) with no immediate plans to diversify into new geographies. APAC's portfolio was largely concentrated in Tamil Nadu (39%), Andhra Pradesh (30%) and Rajasthan (12%) with these top 3 states accounting for over 80% of the AUM as on March 31, 2023, exposing the company to concentration-related risks. Nonetheless, ICRA notes the ramp-up in APAC's customer base with the company servicing 22,422 customers across 125 branches in six states/UTs with an employee base of 1,138 as of June 30, 2023 compared to 20,184 customers, 122 branches, six states/UTs and 1,064 employees as of March 31, 2023 and 9,881 customers, 83 branches, six states/UTs and 714 employees as of March 31, 2022.

Modest, albeit improving, profitability – APAC reported a profit after tax (PAT) of Rs. 24 crore in FY2023 compared to Rs. 11.1 crore in FY2022. The company's profitability had remained subdued in the past due to the elevated operating expenses required for the scale-up of the operations as well as the higher credit costs on its legacy book. The RoMA and RoE stood at 2.6% and 5.1%, respectively, in FY2023 compared to 2.0% and 2.6%, respectively, in FY2022. In Q1 FY2024, the company reported a PAT of Rs. 12.1 crore with an improvement in the RoMA and RoE (4.0% and 9.8%, respectively, on annualised basis) due to the prudent scale-up in operations while the credit costs remained under control. The revenue growth in Q1 FY2024 was 1.9 times the increase in operating expenses, leading to an improvement in the profitability metrics. Going forward, APAC's ability to continue enhancing the operating efficiency while keeping tight control over the credit costs, given the high growth trajectory for the near term, remains imperative for further improvement in the profitability on a sustained basis.

Limited diversification in resource profile, notwithstanding augmentation in borrowing relationships – APAC's borrowings are largely from banks and select large NBFCs for its borrowings requirements and is yet to diversify to other sources of funds. Historically, the company's operations were largely funded by equity while dependence on borrowings was limited. In the past year, however, APAC augmented its lending relationships (16 as of June 2023 compared to 6 as of March 2022 and 1 as of March 2021) to raise funds for the scaling-up of its operations. It not only onboarded new lenders but also received enhancements from existing lenders. The cost of funds, however, increased due to the rise in systemic interest rates. The borrowings outstanding increased to Rs. 741.0 crore as on June 30, 2023 from Rs. 169 crore as on March 31, 2022. Further, in Q2 FY2022, APAC had executed its first direct assignment transaction to diversify its resource profile, although its borrowings remain primarily from banks and NBFCs. ICRA notes that the dependence on borrowings would increase from the current level with incremental debt-funded business. In this regard, APAC's ability to build a well-diversified resource profile on competitive terms on a sustained basis would remain critical for its near-to-medium-term growth plans.

Liquidity position: Adequate

APAC's liquidity position is adequate with positive cumulative mismatches in the 1-year bucket. As on June 30, 2023, the company's cumulative debt repayment obligations stood at Rs. 429.8 crore over the next one year and it had on-balance sheet liquidity (comprising unencumbered cash and bank balance and liquid investments) of ~Rs. 101 crore and undrawn sanctioned limits of Rs. 132 crore (comprising terms loans of Rs. 95 crore and working capital lines of Rs. 37 crore).

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company improves its earnings profile while scaling up its granular and secured lending operations, builds a well-diversified resource profile, and maintains a healthy asset quality and capital profile on a sustained basis.

Negative factors – Pressure on APAC's rating could arise if the leverage increases significantly (gearing of over 4 times) over the medium term or if there is a sustained weakening in the asset quality (90+ dpd increasing beyond 5%), thereby putting pressure on the profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

APAC Financial Services Private Limited (APAC FSPL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It predominantly provides secured small-ticket loans to micro, small and medium enterprises (MSMEs). APAC FSPL has a wholly-owned subsidiary, APAC Housing Finance Private Limited (APAC HFPL), a housing finance company registered in May 2018 with National Housing Bank. APAC FSPL and APAC HFPL are together referred to as APAC or the APAC Group (or the company). APAC HFPL is in the process of amalgamating itself with the parent (APAC FSPL) through the National Company Law Tribunal (NCLT) process and a no-objection certificate (NOC) was received from the RBI on May 12, 2022.

APAC is promoted by Mr. Gunit Chadha (former Chief Executive Officer (CEO), Asia-Pacific and member of Global Group Executive Committee, Deutsche Bank), who had a 52.4% stake in the company as on March 31, 2023 (estimated to decline to 40% post the proposed capital raise). Multiples Alternate Asset Management, via Multiples Private Equity Fund II LLP and Plenty Private Equity Fund I Limited, holds a 40.2% stake in APAC while the balance is held by the company's leadership team (3.1%) and other investors (4.3%). At present, APAC has a six-member board of directors, which includes Mr. Gunit Chadha (Managing Director), Mr. Shankar Dey (Chief Financial Officer (CFO) & Executive Director), one non-executive member, one member from Multiples Private Equity and two independent directors (onboarded in FY2022).

The company had 22,422 customers across 125 branches in 6 states/UTs as on June 30, 2023 compared to 20,184 customers and 122 branches as on March 31, 2023. In Q1 FY2024, it reported a PAT of Rs. 12.1 crore on total income of Rs. 62.1 crore. The net worth stood at Rs. 501.7 crore with a gearing of 1.5 times as on June 30, 2023.

Key financial indicators (audited)

APAC (consolidated)	FY2022	FY2023	Q1 FY2024*
Total income	84.5	173.3	62.1
Pre-provisioning operating profit	19.9	46.6	19.0
Profit after tax	11.1	24.0	12.1
Net worth	459.5	488.5	501.7
Loan book (net)^	574.7	1,052.2	1,156.3
Total assets	649.2	1,182.5	1,254.6
Return on assets	2.0%	2.6%	4.0%
Return on net worth	2.6%	5.1%	9.8%
Gross gearing (times)	0.4	1.4	1.5
Gross NPA	1.4%	1.2%	1.2%
Net NPA	1.1%	0.9%	0.9%
Gross stage 3	1.4%	1.2%	1.2%
Net stage 3	1.1%	0.9%	0.9%
Solvency (Net stage 3/Net worth)	1.4%	2.0%	2.0%
CRAR	73.1%	43.6%	41.9%@

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Unaudited, Q1 FY2024 ratios are annualised; ^Includes accrued interest and amortised fees and expenses; @Standalone*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
					Sep 08, 2023	Jan 06, 2023	Jun 28, 2022	Jun 21, 2022	Nov 30, 2021	Apr 5, 2021	-
1	**Long-term fund-based bank lines**	Long term	1,100.0	741.0	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-	-
2	**Long-term fund-based bank lines (term loans)**	Long term	-	-	-	-	-	-	**[ICRA]BBB+ (Stable)**	-	-
3	**Long-term fund-based bank lines (CC)**	Long term	-	-	-	-	-	-	-	**[ICRA]BBB+ (Stable)**	-
4	**Long-term fund-based bank lines (unallocated)**	Long term	-	-	-	-	-	-	-	**[ICRA]BBB+ (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank lines	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based bank lines**	FY2021	NA	FY2025-FY2030	1,100	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	APAC Ownership	Consolidation Approach
APAC Financial Services Private Limited	Rated Entity	Full consolidation
APAC Housing Finance Private Limited	100%	Full consolidation

Source: Company

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Komal M Mody
+91 22 6114 3424
komal.mody@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches